

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

In re:

PHOEBEN, INC., d/b/a ARMENTA,  
Debtor.

Case No. 19-31000

Chapter 11

**DECLARATION OF EMILY ARMENTA IN SUPPORT OF THE  
DEBTOR'S CHAPTER 11 PETITION AND FIRST DAY MOTIONS**

I, Emily Armenta, hereby declare under penalty of perjury:

1. I am the CEO of Phoebe, Inc., d/b/a Armenta (“Armenta” or the “Debtor”).
2. The Debtor and its Board of Directors have authorized me to make this declaration to assist the Court and other parties in understanding the background and basis for Armenta’s filing under chapter 11 and the relief requested in the motions described below (the “First Day Motions”).
3. I am generally familiar with Armenta’s business and financial affairs. This declaration is based on my personal knowledge, my discussions with the Debtor’s personnel and its professional advisors, my review of the books and records and my own opinions based on my experience. I am over the age of 18 and can testify competently to these facts if called upon to do so.

**Summary**

4. Armenta is a Houston-based designer and maker of handcrafted jewelry. The company seeks to auction substantially all of its assets in a sale process under section 363, followed by confirmation of a plan that is expected to provide a distribution to general unsecured creditors. An investor group called Dothan Jewelry Partners GP, LLC (“Dothan”), has agreed to serve as a stalking-horse bidder and to extend DIP credit on a non-priming basis. The Debtor’s pre-petition secured lender, Comerica Bank (“Comerica”), consents to the use of its cash collateral. The Debtor seeks routine First Day relief so it may continue its operations uninterrupted through the sales process.

### The Company

5. Founded in 2001, Armenta designs and makes handcrafted, high-end jewelry sold to premium retailers and directly to consumers. The Armenta brand is known for a creative use of mixed metals with precious and semi-precious stones that reflects the dynamism and complexity of its wearers. Armenta's aesthetic combines elegant design with high-quality artisanal construction.



#### **A. Products**

6. Armenta designs and produces a full range of personal jewelry, including earrings, necklaces, rings, bracelets and enhancers. Armenta also designs and produces a line of leather goods including handbags, wallets and card cases. Jewelry makes up the majority of Armenta's sales, with leather goods accounting for less than 5% of sales.

7. All of Armenta's products are manufactured at a single facility at 10601 S. Sam Houston Parkway West, Suite 100, Houston, Texas 77071. Armenta is current on its lease and intends to assume and assign the lease as part of the anticipated sale of its assets.

8. Armenta sources its primary materials from a network of vendors. There are no long-term supply contracts in place. The company instead makes orders on an as-needed basis to match demand from sales orders generated by the sales team.

**B. Workforce**

9. Armenta has 44 full-time employees. Each receives a salary on a twice-monthly basis. There are no part-time or temporary workers. Emily Armenta is the CEO. Ailsa Phelps is the COO.

10. The company has a sales team of 5 members. The sales team travels on a regular basis nationwide, and occasionally internationally, to visit buyers. Sales team members are eligible for bi-annual bonuses that are based on performance.

11. Armenta cultivates a family culture that fosters long-term commitment and loyalty among its employees. The vast majority of the employees have been with Armenta for years.

**C. Customers**

12. Armenta sells both through retailers and directly to customers through its website. Products are sold through retailers in one of three ways.

a. Asset Sales. Armenta sells finished goods to resellers who then take title to the inventory and resell it to the public. A majority of Armenta's revenue comes for these asset sales. The largest customers are national luxury retailers including Neiman Marcus, Nordstrom, Bergdorf Goodman and others. Armenta also sells to dozens of independent jewelry boutiques.

b. Consignment. Armenta sells a portion of its products on a consignment basis through smaller retailers and boutiques. In these arrangements, retailers take possession but not title to the inventory and market it to the public. Armenta then receives a negotiated percentage of the revenue realized on the items.

c. Trunk Sales. The sales team participates in special events at retail customers where items are sold by Armenta personnel to the public from within a retailer's location. Revenue from the sales is shared with the retailer. These events usually coincide with holidays like Mother's Day and Valentine's Day.

13. Armenta sells a portion of its inventory through its own website at [www.armentacollection.com](http://www.armentacollection.com). Revenue from these sales is received directly from the buyer.

14. Armenta's market experiences a high degree of seasonality. There are strong sales periods in both the spring and the fall. The sales cycle is built around these times. During strong sales periods, the sales team is primarily running trunk shows and presenting at trade shows. During lower sales periods, the team visits retailers to show the latest season's line and to secure new orders.

15. Armenta does not have long-term contracts with buyers. While some retailers issue purchase orders for their buys, these cover only the single transaction at hand. Armenta depends on its sales team to secure new orders each season, even from long-established, repeat buyers.

**D. Reason for Filing for Bankruptcy**

16. At the beginning of 2018 the company began to look for a strategic partner who would be able to provide long-term capital to the business. Additional capital would allow the company to take advantage of strategic opportunities and continue to build a strong brand presence.

17. These efforts and the time associated with this process led to unforeseen distractions for management and coincided with the loss of critical employees. The company's sales team was depleted from seven members to just one. Although Armenta has since rebuilt its sales team by hiring three more sales team members, the lack of a full team through much of 2018 caused a sharp decline in sales and revenue.

18. Sales in the jewelry business depend heavily on relationships built over years between buyers and sale team members. There is significant industry knowledge that takes time to develop. Replacing the sales team has required a substantial investment of time, management attention and financial cost, both in terms of recruiter fees and the lag time between when a new team member begins receiving a salary and when her or his work begins to yield sales.

19. The decline in income caused by the loss of sales team members exacerbated existing financial pressures from significant legacy liabilities. At the same time, litigation commenced by a former employee, although viewed by the company to be completely without merit, nevertheless threatened to impose significant additional costs on the company at this critical time.

20. Faced with these pressures, Armenta determined it was in the best interest of the company and its creditors to pursue a strategic sale and address both legacy liabilities and pending litigation through the bankruptcy process.

**E. Proposed Process and Sale Transaction**

21. Armenta has been looking for a strategic partner for the last few years as management has explored ways to grow the business and access additional sources of funding to take advantage of new opportunities and continue to build its brand. The strain from the loss of the sales team in mid-2018 made that search more urgent.

22. Armenta identified a private equity group, Dothan Partners, LLC, which expressed interest in acquiring the business. Dothan Partners formed a new entity, Dothan Jewelry Partners GP, LLC, for the purpose of acquiring Armenta's assets. Dothan Partners, LLC, is non-insider to Armenta and is the controlling member of Dothan Jewelry Partners GP, LLC. Gerygone Capital, which is controlled by George Clark, a board member of Armenta, is a minority non-controlling member in Dothan Jewelry Partners GP, LLC. Emily Armenta is not participating in Dothan Jewelry Partners GP, LLC, but is anticipated to continue with the company post-sale. Both George Clark and Emily Armenta recused themselves from consideration and voting on Armenta's Board Resolution authorizing the DIP financing and the stalking horse bid. The Board Resolution authorizing the DIP financing and the stalking horse bid was unanimously approved by the voting Directors.

23. Dothan has agreed to serve as a stalking-horse bidder in a bankruptcy auction of Armenta's assets under section 363. Dothan would purchase substantially all of the Debtor's assets. The cash purchase price of \$1,977,000 is sufficient to satisfy all secured creditors and all anticipated administrative and priority unsecured claims. The terms of the stalking horse bid are set forth in the Asset Purchase Agreement filed as an exhibit to the first day motion on sale procedures.

24. A portion of the inventory of semi-precious stones is carved out from the transaction. These have a book value of approximately \$200,000, but will likely be liquidated for much less than that amount. The Debtor intends to use the proceeds from the liquidation of this inventory to fund unanticipated costs of the case and to make a distribution to unsecured creditors.

25. The details of the proposed sales process, DIP financing and use of cash collateral are contained in the respective First Day Motions filed herewith.

#### **F. Structured Debt**

26. The Debtor has three credit facilities with Comerica that are each secured by blanket liens on substantially all of the Debtor's assets.

<b>Loan</b>	<b>Original Date</b>	<b>Maturity</b>	<b>Face Amount</b>	<b>Balance*</b>
Installment Note	8/18/2017	8/14/2022	\$700,000	\$501,666.61
Master Revolving Note First Amend. Second Amend.	8/18/2017	3/1/2019	\$800,000 +\$150,000 +\$50,000	\$1,000,000
Single Payment Note	7/2/2018	3/1/2019	\$100,000	\$100,000

\*Exclusive of interest, fees and anticipated reimbursable costs, estimated not to exceed \$75,000.

27. The company also owes franchise taxes to Harris County in the amount of approximately \$47,000. This amount is secured by a statutory lien.

#### **First Day Motions**

28. Armenta seeks first-day relief to allow it to continue operations uninterrupted. The Debtor believes immediate relief is necessary to preserve value for the anticipated sale process.

a. **Finance Motion.** The Debtor seeks authority to use Comerica's cash collateral subject to adequate protection, including interest-only payments, and to borrow cash from the stalking-horse bidder on a secured but non-priming basis.

b. **Sale Motion.** The Debtor seeks authority to commence marketing the assets as part of a sale process under section 363. The Debtor plans to seek qualified bidders for an auction built around the stalking-horse bid.

c. **Cash Management Motion.** The Debtor seeks routine permission to continue using its pre-petition cash management system, which consists of one bank account and a series of prepaid Visa cards that employees use for travel and other expenses.

d. **Wages Motion.** The Debtor seeks permission to pay pre-petition wages and continue making payroll in the ordinary course of its business. Keeping the employees is critical to preserving the Debtor's value as a going concern.

e. **Utilities Motion.** The Debtor seeks approval of proposed adequate assurance payments and a mechanism for making any needed adjustments.

29. Detailed background and reasoning behind each of the foregoing motions appears in those motions themselves. I have reviewed each of the First Day motions and can testify competently to the accuracy of all of the factual statements made therein.

Dated: February 26, 2019.

/s/ Emily Armenta  
Emily Armenta